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SUBJECT: IRFFI AGREES NO STOCKHOLM MEETING, DISCUSSES  
GOI-DONOR CO-FINANCING MECHANISM

Classified By: Economic Minister Counselor Charles P. Ries for reasons  
1.4(b) and (d)

11. (C) Summary: At our suggestion, IRFFI Co-Chair Ambassador De Martino announced at a May 3 IRFFI Executive Committee Meeting that there would be no IRFFI meeting (either formal or informal) on the margins of the upcoming International Compact with Iraq (ICI) Ministerial Meeting in Stockholm on May 29. His stated reason for the delay was that there was no agenda and no progress to report. A formal donors meeting, instead, will be held in Baghdad in early July. De Martino's announcement met with displeasure from IRFFI members. The United Nations is developing an Iraq Assistance Strategy for 2008-2010 that will provide guidance on redirecting UN assistance from ongoing projects that have lagged behind in implementation to more pressing needs in Iraq. The GOI's IRFFI Co-Chair Fayak Abdalrasul observed that Iraqi government performance and quality continued to be very poor. Iraqi exiles with needed skills and experience need to be encouraged to come back to Iraq. However many of them could not be employed due to political problems or were not willing to work for the amount of money provided for in the GOI's civil service pay scales. The GOI also discussed a draft proposal for co-financing development projects with bilateral and multilateral donors. The GOI intends to introduce this proposal at the ICI Ministerial on May 29. The proposal requires clarification of several key points, which donors noted in a preliminary review. End summary.

12. (C) Italian Ministry of Foreign Affairs and Iraq Coordinator Ambassador Gianludovico De Martino and GOI Ministry of Planning and Development Cooperation (MoPDC) Senior Advisor Dr. Fayak Abdalrasul co-chaired the International Reconstruction Fund Facility for Iraq (IRFFI) Executive Committee Meeting on May 3 in Baghdad. Econoff attended the IRFFI Informal Donors Meeting, held immediately following the Executive Committee Meeting.

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Angst About IRFFI  
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13. (C) At a May 2 meeting with De Martino, EMIN advised that the USG did not support the notion of holding an IRFFI Donors meeting in conjunction with the upcoming International Compact with Iraq Ministerial Meeting in Stockholm on May 29. De Martino agreed it made sense to separate the two meetings. De Martino's announcement at the IRFFI Executive Committee Meeting on May 3 that there would be no IRFFI meeting in Stockholm at the end of May was met with great displeasure by the other executive committee members. European Commission Head of Delegation Ilkka Uusitalo noted that Sweden had agreed to hold the IRFFI meeting but "apparently everyone knows that there are other issues that have come up that mean this meeting will not be held."

(Note: EC First Secretary Llewellyn Edwards told Econoff that Uusitalo was referring to opposition to this meeting from Deputy Prime Minister Barham Salih. End note.) "This calls into question how really relevant IRFFI is," Uusitalo said.

¶4. (C) De Martino held firm, repeating that there was no need to hold a meeting when there were no accomplishments and no agenda to discuss. The Executive Committee finally agreed that a formal Donors Committee Meeting would be held in Baghdad in early July.

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Bring Iraqi Experts Home as Contractors  
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¶5. (C) Noting that the Iraqi government's "performance and quality is still very bad," the GOI's IRFFI co-chair Dr. Fayak said that Iraq needed to do more to bring Iraqis with experience and technical skill back from their diaspora. Though the security situation had improved, the GOI was unable to adequately attract this much-needed human capital. Fayak said that the GOI cannot hire many of these people who had previously worked in the government for "political reasons" and that GOI salaries were also not high enough to entice them back. Therefore IRFFI should look into hiring these Iraqis as contractors (Note: presumably at higher salaries. End note) and install them in the ministries to assist in GOI government capacity building and execution.

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United Nations Iraq Assistance Strategy  
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¶6. (SBU) UNAMI Program Advisor Moin Karim outlined a draft  
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United Nations Iraq Assistance Strategy for the period of 2008-2010. The goal of this strategy is to clarify the UN's commitment to meeting the humanitarian and developmental needs of the Iraqi people and to promote cost-sharing with the GOI. The UN intends to examine its ongoing projects in Iraq to determine which ones are overcome by events in order to redirect funding towards newer or more achievable priorities.

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Proposed Mechanism for GOI/Donors Co-Financing  
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¶7. (SBU) Dr. Fayak discussed the GOI's proposed mechanism for GOI/Donor co-financing of projects in Iraq. This paper, produced by the MoPDC and currently under review in the Ministry of Finance, is an outcome from the October 2007 IRFFI meetings held in Bari, Italy. According to the current draft, all bilateral and multilateral assistance to the GOI will be incorporated into the Iraqi budget as revenue. Donors will negotiate memoranda of understanding with the GOI on each project that will describe the scope of work and each side's contributions. (Note: the full text of the draft is reproduced at paragraph 9. End note.) The GOI intends to introduce this proposal in its final form at the upcoming ICI Ministerial in Stockholm.

¶8. (C) Comment: The proposal, a draft, requires a number of clarifications. Its methodology appears to link donor contributions to Iraq's complex and unwieldy annual budget process. This, and the apparent need for individual donor projects to appear as line-item revenue receipts with separately pre-negotiated MOUs, could significantly delay execution of donor projects. Embassy will work with Dr. Fayak and other GOI officials to clarify these points. End comment.

¶9. (SBU) Begin text of Proposal:

One of the recommendations of the sixth Donor Committee meeting held in Bari, Italy (October 28-29, 1997), is the establishment of co-financing arrangements between the GOI and the international community aimed at enhancing public financial management and feasibility studies preparation, successful preparation of bidding documentation and ensuring timely completion of the Iraqi national investment program. It may also help provide requirements for technical assistance to the Iraqi ministries in order to raise their capacities in the abovementioned fields.

#### General Principles:

- The proposed mechanism shall be applied on qualified projects of the Iraqi National Investment Program (NIP), it can also be applied on the project proposals submitted by international donor institutions if those projects are consistent with national reconstruction and development priorities as specified by the National Development Strategy (NDS) and the International Compact with Iraq (ICI).
- The co-financing mechanism will lay the ground for mutual cooperation between the GOI and bilateral donors and multi-lateral donors through the United Nations and World Bank trust funds, taking into consideration procurement and financial rules and guidelines for both the Iraqi government and donors.
- The suggested mechanism shall concentrate on activities related to technical assistance such as preparation of project feasibility studies, capacity building in procurement and financial management, preparation and completion of bidding documentation, and bid/proposal evaluation as well as any other activities that can help expedite budget implementation and disbursement and to create sustainability in the formulation of the national investment program according to international standards.
- It will also provide the possibility of benefiting from international experience according to comparative advantage of bilateral and multilateral donors and the introduction of new technologies and training Iraqi staff in order to achieve sustainable development of various sectors of the economy.

#### Guidelines

- The Minister of Finance (MoF) may consult the Minister of Planning and Development Cooperation (MoPDC) on priorities, estimates of total available financial resources, procedures for preparing capital expenditures plan including projects that would be financed or implemented through external

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resources.

- The MoPDC, in coordination with the MoF and other line ministries, shall initiate negotiations with donors for the purpose of determining pledges and financial commitments intended to support the co-financing mechanism in appropriate duration before preparing the national budget in the month of April or a supplementary budget during the fiscal year. Taking into account that the co-financing resources (whether technical assistance, in kind, or credits) will be considered as revenues for the national budget as stipulated by Section 4 Paragraph 7 of the Financial Management and Public Debt Law.
- After the identification of donor financial commitments, the MoPDC, MoF, and other line ministries shall determine those projects that are eligible for the co-financing mechanism during the preparation period of the National Investment Program (NIP) in consultation with concerned donors.
- The above-mentioned projects shall be submitted to the Iraqi Strategic Review Board (ISRB) for its review and endorsement.

- The MoF in consultation with the MoPDC shall sustain (sic) the approved projects for the purpose of allocating the required funds in the investment or recurrent parts of the budget.

- Concerned donors shall provide the MoF with documentation supporting its commitments (whether technical assistance, in kind, or credits).

- A memorandum of understanding (MOU) for each proposed project that is to be implemented through co-financing shall be signed as soon as the budget law is ratified by the Iraqi Parliament. Such MOUs shall determine the roles and responsibilities of each party (i.e. the GOI, beneficiary, and the donor) taking into consideration the execution timetable for all activities funded by the GOI or donors in order to achieve a successful implementation of project activities in due time and to release funds according to the payment schedule as specified in the MOU.

- MoPDC's sectoral directorates shall monitor and evaluate the implementation of each project in order to oversee progress.

- Any financial contribution during the NIP implementation period will be considered as additional financing for any project. This would be applicable for projects proposed by donors or not listed in the NIP.

- After implementation of the components, any donation, whether technical assistance, in kind, or credit support, shall be considered as revenue and be recorded according to the economic classification of the budget with the concerned spending accounts of both the line ministries and self-funding.

- Contracts that would be financed by national resources shall be subject to Iraqi laws and regulations.

- Special articles in the annual budget law shall be promulgated to provide exemption from any taxes or administrative fees for those activities or projects that would be financed by grants or loans.

End text of proposal.

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